

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	1
BISD RESPONSE	2
FINDINGS AND RECOMMENDATIONS	
FID 98-12001 Administrative Charge	2
FID 99-12001 Improperly Billed Supplies	2
FID 99-12001 Services Description	3
Contract Language for Sub-recipients	3
Sub-recipient Single Audit Reports	3-4
Vendor or Sub-recipient Determination	4
Recoupment	4-5

INTRODUCTION

Branch Intermediate School District (BISD) entered into contracts with the Michigan Family Independence Agency (FIA) to perform the fiduciary function for the Secondary Prevention program in Branch County. The 1998 and 1999 contract numbers are FID 98-12001 for \$63,708 and FID 99-12001 for \$95,562, both funded 100% by CFDA #93.558, Temporary Assistance to Needy Families (TANF). Collectively, these contracts covered the period October 1, 1997 through July 31, 1999. These contracts state that BISD was to be reimbursed for its actual costs incurred in providing the services. Payment was made quarterly in advance by FIA.

SCOPE

The Office of Internal Audit performed an audit of BISD to determine if they complied with the terms of their contracts with FIA, and if systems, procedures and monitoring operations of BISD are in compliance with standards, policies and regulations as established by FIA and the Federal guidelines. Our audit included BISD's sub-contacting policies, monitoring process, equipment purchasing policy, and year-end closeout procedures. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

EXECUTIVE SUMMARY

Based on our audit, we concluded that BISD was not in compliance with some of the provisions of its contract with FIA, and standards, policies and regulations established by FIA and Federal guidelines. The lack of compliance with Federal Office of Management and Budget (OMB) Circular A-133 will result in a significant amount of questioned costs if BISD fails to implement appropriate corrective action. A description of all the areas of noncompliance and our recommendations for corrective action follow.

BISD RESPONSE

The management of Branch County Intermediate School District has reviewed all findings and recommendations included in this report. They indicated in a letter dated September 23, 1999 that they are in general agreement with the report. They stated that corrective action for all items would be completed by December 31, 1999.

FINDINGS AND RECOMMENDATIONS

FID 98-12001 Administrative Charge

1. BISD charged \$1,183.51 to administrative expense for 1998. There was no cost allocation plan to support the charge. Federal Office of Management and Budget (OMB) Circular A-87, Attachment C, requires that a cost allocation plan be developed and maintained along with supporting documentation to support allocated charges.

WE RECOMMEND that the FIA Field Operations Administration (FOA) either ensure that BISD has retroactively developed an acceptable cost allocation plan for 1998, or initiate the process to recoup the \$1,183.51 in administrative charges.

FID 99-12001 Improperly Billed Supplies

2. BISD incorrectly billed supplies expense of \$751.75 for 1999. The supplies costs were incurred by a subcontractor, and not directly by BISD. Therefore, these expenses should have been billed under the contractual services line item.

WE RECOMMEND FOA instruct BISD to amend their expense report to properly record this expense as a contractual services expense.

FID 99-12001 Services Description

3. BISD made payments of \$38,054.62 to subcontractors in fiscal year 1999 for services that were not included in the subcontracts. In order for subcontractors' costs to be reimbursable, they must be incurred for services that are included in the subcontract.

WE RECOMMEND FOA obtain a retroactive service description for each subcontractor from BISD for 1999, approve the services they would have approved if the services description had been submitted in advance, and initiate the process to recoup the overpayments made for services that are not approved.

Contract Language for Subrecipients

4. BISD did not always include the Catalog of Federal Domestic Assistance number (CFDA#) and Federal Financial Participation percentage (FFP%) in its subcontracts. OMB Circular A-133, Subpart D.400 requires recipients to inform their subrecipients of the amount of federal assistance and the CFDA number associated with those funds.

WE RECOMMEND FOA work with BISD to ensure they comply with Federal requirements for subrecipients.

Subrecipient Single Audit Reports

5. BISD did not have a process in place to identify subrecipients that received in excess of \$300,000 in federal funds. OMB Circular A-133 requires that the recipient of federal funds identify sub-recipients who receive in excess of \$300,000 in federal funds, obtain a copy of the Single Audit Report for those agencies, and ensure that appropriate corrective action is taken for all findings and questioned costs identified

in the subrecipient's Single Audit Report. Failure to obtain and review the audit reports and take appropriate corrective action for findings and questioned costs could result in loss of Federal funds for the program.

WE RECOMMEND FOA ensure that BISD is aware of the requirements for reviewing Single Audit Reports of its sub-recipients, and has procedures in place to comply with this requirement.

Vendor or Subrecipient Determination

6. BISD did not have a process in place to determine whether their subcontractors were vendors or subrecipients. BISD is required to follow all OMB Circular A-133 requirements for subrecipients, but those requirements do not apply to vendors. Proper identification of sub-recipients and vendors is necessary to ensure compliance with OMB Circular A-133.

WE RECOMMEND FOA ensure that BISD implements a process to determine whether each subcontractor is a subrecipient or a vendor.

Recoupment

7. OMB Circular A-133 requires that federal funds be included as questioned costs by auditors for programs where the pass-through agency did not monitor the subrecipient or review their Single Audit Report and take appropriate corrective action. As noted above, BISD did not meet these oversight requirements for its subrecipients. If proper oversight requirements are not implemented, it will be necessary for FOA to start the process to recoup the entire amount of federal expenditures for these contracts for 1998 and 1999.

WE RECOMMEND that FOA determine if BISD complied with all monitoring and oversight requirements of OMB Circular A-133 subsequent to the completion of our audit, and initiate the process to recoup all federal funds expended under these contracts for which BISD has not complied with the monitoring and oversight requirements.